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ACTION NEA-12

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NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

DRC-01 STR-08 /194 W

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C O N F I D E N T I A L TEHRAN 8425

E.O. 11652: GDS

TAGS: ECON, IR

SUBJ: REVISED 1352 BUDGET AND PROPOSALS FOR IRANIAN YEAR 1353

REF: TEHRAN 1484

1. SUMMARY: PRIME MINISTER HOVEYDA PRESENTED 1352 (MARCH 21, 1973 - MARCH 20, 1974) BUDGET REVISED ESTIMATES AND PROPOSALS FOR IRANIAN YEAR 1353 TO MAJLIS (PARLIAMENT) ON NOVEMBER 27. THIS YEAR'S GENERAL BUDGET SPENDING WILL BE INCREASED BY ABOUT \$1 BILLION OR ALMOST 14 PERCENT. PROPOSALS FOR 1353 INVOLVE ADDITIONAL RISE OF 35 PERCENT TO GENERAL BUDGET SPENDING LEVEL OF ALMOST \$12 BILLION, OR MORE THAN HALF OF PREDICTED CURRENT PRICES 1353 GNP OF \$22.7 BILLION. ON REVENUE SIDE, INCREASED OIL REVENUES ARE MOST IMPORTANT FACTOR. PROPORTIONATE INCREASES IN MILITARY SPENDING EXCEED PLANNED OUTLAYS FOR DEVELOPMENT, AND BUDGET APPEARS LIKELY TO AGGRAVATE ALREADY DISTURBINGLY HIGH RATE OF INFLATION. ALL DOLLAR FIGURES CALCULATED AT RLS 67.50 TO \$1. END SUMMARY.

2. IN FIRST APPLICATION OF NEW SYSTEM OF PRESENTING SIMULTANEOUSLY REVISED ESTIMATES FOR CURRENT YEAR AND PROPOSALS FOR IRANIAN YEAR BEGINNING NEXT MARCH 21, PRIME MINISTER MADE BUDGET ADDRESS TO
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MAJLIS ON NOVEMBER 27. UNDER NEW SYSTEM, ANNUAL BUDGET REVISION

AND PROPOSALS ACTUALLY SUPPOSED TO HAVE BEEN READY BY LATE SEPTEMBER, BUT TWO-MONTH DELAY APPARENTLY WAS CAUSED BY RAPIDLY CHANGING REVENUE OUTLOOK FROM OIL PRICE INCREASES AND BUREAUCRATIC DIFFICULTIES.

3. 1352: GENERAL SPENDING LEVEL HAS BEEN INCREASED BY ABOUT \$1 BILLION TO \$8.9 BILLION. IF EXPENDITURES OF \$3.3 BILLION ON GOVERNMENT CORPORATIONS AND AFFILIATED COMPANIES AND AGENCIES ARE INCLUDED, NEW TOTAL IS \$12.2 BILLION. LARGEST INCREASES MADE IN ECONOMIC AND SOCIAL DEVELOPMENT SPENDING, WITH MILITARY EXPENDITURES OSTENSIBLY RISING BY ONLY ABOUT 6 PERCENT. ON REVENUE SIDE, REVISED CURRENT RECEIPTS ESTIMATES HAVE RISEN TO \$6.6 BILLION. PREDICTABLY, \$1 BILLION RISE IN GAS AND OIL REVENUES TO \$4.3 BILLION IS BIGGEST FACTOR, BUT PREDICTED TAX RECEIPTS ALSO HAVE JUMPED SHARPLY BY \$300 MILLION TO \$2 BILLION. DOMESTIC BORROWING REMAINS ABOUT SAME AT \$1.5 BILLION LEVEL, AND FOREIGN LOAN UTILIZATION OF \$524 MILLION IS CONSIDERABLY LOWER THAN \$900 MILLION PREDICTED EARLIER (REFTEL. DEFICIT OF ABOUT \$2.2 BILLION REPRESENTS 25.3 PERCENT OF GENERAL BUDGET SPENDING AND IS ABOUT \$200 MILLION LESS THAN ORIGINALLY EXPECTED.

4. 1353: GENERAL BUDGET PROPOSED FOR NEXT IRANIAN YEAR BEGINNING MARCH 21, 1974 TOTALS ALMOST \$12 BILLION OR 35 PERCENT OVER REVISED ESTIMATE FOR CURRENT YEAR. ADDITION OF EXPENDITURES ON GOVERNMENT COMPANIES AND AGENCIES OF \$4.2 BILLION BRINGS OVERALL TOTAL TO ABOUT \$16.2 BILLION. ON REVENUE SIDE, GAS AND OIL INCOME IS PREDICTED TO JUMP TO \$6.6 BILLION, 54 PERCENT INCREASE OVER 1352 REVISED ESTIMATE. TAX COLLECTIONS ARE EXPECTED TO INCREASE TO \$2.5 BILLION, OR 25 PERCENT RISE. THOUGH FOREIGN LOAN UTILIZATION IS PROJECTED TO RISE TO SLIGHTLY MORE THAN \$1 BILLION (PARTLY REFLECTING SLOWER THAN EXPECTED UTILIZATION THIS YEAR), NET DOMESTIC LEVEL BORROWING IS PLANNED AT ONLY \$1.2 BILLION, 20 PERCENT BELOW 1352. OVERALL DEFICIT OF \$2.5 BILLION, WHILE ABOVE THIS YEAR'S TOTAL, REPRESENTS ONLY 21 PERCENT OF GOI GENERAL BUDGET.

5. PLANNED EXPENDITURES FOR 1353, IN CONTRAST TO REVISED ESTIMATES FOR THIS YEAR, SHOW LARGEST INCREASE OF 51 PERCENT IN NATIONAL DEFENSE SPENDING TO \$3.2 BILLION. BUDGET ALLOCATION FOR "ECONOMIC AFFAIRS" (I.E. AGRICULTURAL, INDUSTRIAL, TRANSPORT AND COMMUNICATIONS DEVELOPMENT ETC) AT \$3.4 BILLION STILL IS LARGEST OF GENERAL

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CATEGORIES IN BUDGET, AND SHOWS 44 PERCENT INCREASE OVER 1352. EXPENDITURES ON SOCIAL DEVELOPMENT (I.E. EDUCATION, HEALTH ETC) AT \$2.3 BILLION ARE TO RISE BY ONLY 27 PERCENT. AS PROPORTION OF TOTAL SPENDING, DEFENSE EXPENDITURES HAVE RISEN FROM 23.2 TO 26 PERCENT. DEFINED ANOTHER WAY, OVERALL "DEVELOPMENTAL" EXPENDITURES OF \$4.4 BILLION PLANNED FOR 1353 INCREASED BY 42 PERCENT.

6. INFLATIONARY IMPACT: WHILE GOI'S HOLDING REIN ON INTERNAL BOR-

ROWING THIS YEAR AND REDUCTION IN PROPORTIONATE SIZE OF 1353 DEFICIT ARE ENCOURAGING FACTORS, BUDGET CONTAINS NO ANTI-INFLATIONARY ASPECTS LEKELY TO REDUCE HIGH RATE OF PRICE INCREASES WHICH CURRENTLY RUNNING AT LEAST IN 12-15 PERCENT RANGE. EVEN WITH LOWER DEFICIT FINANCING, BIG INCREASE IN TOTAL SPENDING CAN ONLY AGGRAVATE INFLATIONARY PRESSURES. ACCORDING TO PRIME MINISTER'S SPEECH, GOI PLANS RAISE MINIMUM GOVERNMENT SALARY DURING 1353 BY 25 PERCENT FROM RLS 6,000 TO 7,500 PER MONTH. LARGE, IF NOT COMMENSURATE, WAGE INCREASES AT ALL LEVELS IN PRIVATE SECTOR AND GOVERNMENT UNDOUBTEDLY WILL FOLLOW. AMOUNT TO BE SPENT ON SUBSIDIZING PRICES OF BASIC COMMODITIES SUCH AS BREAD, SUGAR, MEAT, ETC AND TRANSPORTATION, RAISED FOR \$178 MILLION IN THIS YEAR'S REVISED BUDGET TO \$252 MILLION IN 1353, LIEKELY TO HAVE ONLY LIMITED IMPACT ON OVERALL INFLATION RATE. GOI'S SOMEWHAT DEFENSIVE ATTITUDE ON INFLATION PROBLEM EXEMPLIFIED BY REPORTED STATEMENTS OF PLAN AND BUDGET ORGANIZATION MINISTER ABDOL MAJIDI WHO REITERATED STANDARD LINE ON COUNTRY'S SUFFERING FROM INTERNATIONAL INFLATION BUT ALSO NOTED THAT RISING PRICES TO BE EXPECTED IN GROWING ECONOMY WITH HIGH RATE OF INVESTMENT. HE ADDED THAT SOME INFLATION IS PRICE IRAN MUST PAY FOR RAPID PROGRESS.

7. OILITARY SPENDING: PUBLISHED BUDGET TIGURES PROBABLY CONSIDERABLY UNDERSTATE TOTAL SPENDING FOR DEFENSE. REVISED EXPENDITURES FOR 1352 ON MILITARY PROBABLY EXCEED \$3 BILLION (REFTEL. INDICATION OF RISING RATE OF UTILIZATION OF MILITARY LOANS CAN BE SEEN FROM SHARP INCREASE IN PLANNED REPAYMENTS OF PRINCIPLE AND INTEREST ON DEFENSE CREDITS WHICH TOTAL \$589 MILLION IN 1353, OR ALMOST 70 PERCENT INCREASE OVER THIS YEAR'S \$347 MILLION. TOTAL MILITARY SPENDING IN 1353 MAY WELL BE IN \$4 BILLION RANGE GIVEN INCREASING BUILDUP OF DEFENSE FORCES. EMBASSY WILL REPORT ADDITIONAL INFORMATION AS AVAILABLE.

8. BUDGET DOCUMENTS WILL BE FORWARDED AS SOON AS ENGLISH VERSION
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AVAILABLE. SUMMARY TABLES WILL BE POUCHED TO NEA/IRN.
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